

STATEMENT OF ORLANDO J. CABRERA

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“The Section 8 Voucher Reform Act”

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Chairwoman Waters, Ranking Member Biggert, distinguished members of the Subcommittee, my name is Orlando Cabrera and I am the Assistant Secretary for Public and Indian Housing at HUD.

The future of the Housing Choice Voucher Program is one of the most pressing issues we face here at HUD. That was true before the recent surge in the real estate market. The boom of the last few years only added to the pressure. As the cost of rent skyrocketed in many cities, so did our costs. This year, the Housing Choice Voucher program consumed nearly half of HUD's budget.

We are at a crossroads. Since the Congress already changed the way they fund the program, it has become extremely difficult to manage it as currently authorized. The current program is overregulated, inflexible, and regressive rent requirements incentivize recipients to stay in the program longer while waiting lists grow and other vital HUD initiatives suffer as a result. We must modernize the program to adapt to the new funding realities. By liberating PHAs to administer the program in a flexible manner that conforms to local needs, they will be able to assist the maximum number of families within the funding amounts provided by the Congress. The current law limits the number of families a PHA may assist based on the number of vouchers a PHA has under contract with HUD. Good stewards of federal funds are precluded from serving additional families even when they have available appropriated funds. On the other hand, poor stewards of federal funds, who overspend and put their low-income families in peril, will now be rewarded with additional funds.

HUD's FY08 legislative proposal would eliminate the unit cap to allow PHAs to serve additional families as long as the PHA can do so within its fixed budget. PHAs that are able to serve more families would qualify under the HUD proposal for additional funds as a result of their effectiveness and efficiency. HUD's proposal will also eliminate excessive unutilized reserves to ensure that the program is reaching the maximum number of low-income families it is intended to serve and reach more families on the section 8 waiting lists.

HUD's FY08 legislative proposal is also dedicated to reducing the administrative complexity and burden, while increasing local flexibility and decision-making to allow PHAs to be successful in a budget-based environment. PHAs need program simplification and local flexibility so they may concentrate their resources on housing families, not navigating a cumbersome and complex tangle of rules, requirements, and regulations.

For example, the current system for determining the tenant's rent in public housing and the voucher programs is based on a percentage of income, but only after that income is recalculated by applying a myriad of different exclusions and deductions. The complexity of which leads to numerous errors and is extremely costly to administer. True reform in HUD's view means local flexibility. We believe it is ultimately the local PHA that is in the best position to determine the rent structure that works best for their families and their community. Under HUD's proposal, PHAs will have the option of choosing among a

variety of rent structures for public housing and voucher families -, including flat rents, rents determined on broad tiers of income, or even retaining the status quo. HUD's proposal will also expand PHA flexibility through such measures as allowing PHAs that administer both the public housing and voucher programs to meet income targets by looking at new admissions across program lines.

Our proposal will further reduce administrative burden by reforming such areas as the frequency of income reviews and housing quality standards. For example, HUD will provide PHAs with much greater flexibility on the frequency of housing quality standards inspections, allowing the PHA to focus its resources on the most at-risk voucher units while ensuring that even the best-managed unit is physically re-inspected at least once every four years.

With flexibility comes accountability. HUD's proposal would establish PHA performance measures for the voucher that focus on the most critical elements of the PHA's administration that can be assessed using independently verifiable information or data. These factors will include the quality of the dwelling units in which voucher families reside, program utilization of funding, the overall financial condition and management of the public housing agency, and the timeliness and accuracy of PHA reporting.

Under current law, the primary problem with the Housing Choice Voucher Program (HCV) is the statutory and regulatory environment in which it operates. This environment does not promote effective and efficient use of appropriated funds. Instead this program has grown overly complex and promotes a costly approach to providing rental assistance by discouraging incentives necessary for sound public policy. The old funding method required HUD to advance funds, do reconciliations and settlements at the end of the year and recapture funds. By its very nature and structure, the old process generated over funding and resulted in subsequent recaptures of billions of dollars.

In FY 2004 the Appropriators recognized this problem and began the process of modernization by changing the way the program was funded. In FY 2005, funding for HCV was changed from a unit-based approach to a budget based approach. We support that effort and believe that it sets the program on the correct course in the future and represents a responsible stewardship of this federal program.

Since 2005, through the budget-based approach, PHAs are better informed about the predictability, transparency, and timing of the funds they can count on to run their programs. Since HUD is no longer subject to the vagaries of a complicated unit based appropriations process, it can now effectively communicate to the Congress its annual needs on a fixed baseline adjusted for new incremental vouchers and inflation. For the last two years, HUD has been able to clearly articulate to both the Congress and PHAs the budgetary needs of the program.

The management and operation of both the Voucher and public housing programs has devolved into a complicated web of centralized rules that are applied uniformly across

the country. Our job moving forward is to support statutory changes and create a statutory and regulatory environment that supports innovation, flexibility, and is progressive in its treatment of the families we serve. The Department hopes that this year we can reach consensus and get real HCV and Rent reforms passed.

One of the goals of the Voucher program should be to ease the burden of low-income Americans by providing them with a simple and affordable housing option. Instead, the current system makes this helping hand a burden instead and in some instances disincentivizes people from becoming self-sufficient. A simpler rent system that would create incentives for work is needed. Further, this system puts a tremendous administrative burden on PHAs. With ever tightening budgets PHAs are still expected to place administrative plans and “rules” compliance as a priority instead of focusing on providing rental assistance in a fair and humane way. Merely mention the phrase “RIM Review” (Rental Integrity Monitoring) to a public housing Executive and be prepared to be educated on the complexities and in some ways irrationality of our rent determination system.

Practitioners in this program know that the current method for calculating rent and verifying income is onerous, often inaccurate, and can result in significantly different rents for similar households. And while HUD in concert with the industry have worked hard to address this problem within the statutory constraints through notices and guidance, real reform will take legislative intervention.

We must take steps to ensure that a reformed system treats the families we serve in a humane way. Housing authorities should be permitted to simplify how they charge rent. They should be allowed to set rents based on local conditions, increased expectations, and efforts to promote self-sufficiency.

One of our industry partners, the Public Housing Authority Directors Association (PHADA) has published a rent reform booklet that graphically illustrates the problems with the current system and offers a new approach that the Department in large measure supports. I dare say that as you read the attached booklet, you will be shaking your head in agreement about the desperate need for rent reform. There is a better, more efficient, and more humane system to deliver rental assistance through the Voucher program and it should be pursued with vigor and swiftness.

The statutory and regulatory environment governing the voucher program should be simpler, more flexible, and progressive. Public Housing Authorities should have the authority to manage their Voucher programs within a budget and serve their families in a way that best reflects their local needs. Notwithstanding any of these reforms, nothing we intend to propose will change the protected status of elderly and disabled residents within either the Voucher or public housing programs.

As we work to simplify the Voucher program and pursue rent reform, we intend to transform the way we administer the Public Housing program by moving to asset management. Housing authorities own and operate billions of dollars in assets. Yet the

value of these assets is generally unavailable for securing loans, private investment, and other types of leverage. Moving our entire portfolio of more than one million units to the asset management model will create tremendous opportunities for sustainability, development of new and improved affordable housing, and links to private financing that were once unavailable.

The type of innovative financing employed by Chicago and Atlanta has the ability to transform communities all across the country. In Chicago, they have implemented a plan build or rehab 25,000 units of public housing by 2010. And it all started with a bond issue that allowed them to raise \$300 million.

And it doesn't have to be a one-time effort. By refinancing its original bond issue earlier this year, the CHA will save \$70 million that it will now use to rehab even more units. Roughly 150 PHAs have taken advantage of this kind of financing tool. I hope many more follow suit.

As we move our physical portfolio toward a market model, we have to take steps to ensure that a reformed system treats public housing residents in a humane way. Housing authorities should be authorized to simplify how they charge rent. They should be allowed to set rents based on local conditions, increased expectations, and efforts to promote self-sufficiency.

In order to restore public housing to its original purpose as a resource for those in temporary need rather than a lifetime entitlement for people who have the ability to move on, housing agencies in the Moving to Work Program are already experimenting with employment incentives and progressive rent structures. The hope is that these reforms will allow more families to cycle through the system.

When we look at both the voucher and the Public Housing programs together I see opportunities to further streamline the delivery of rental assistance.

One of our greatest tools is the Homeownership Voucher program. This program has taken off over the last two years, providing a smooth path for more than 8,000 low-income Americans to become homeowners. We started with 12 pilot sites and 100 new homeowners through this program in 1999. Now we have more than 450 PHAs and more than 8,000 families.

We expect more than 10,000 families to take advantage of it by the end of next year. It's taking off because of the powerful impact it has on peoples' lives. The vast majority are people with disabilities or single mothers

The President's vision of an Ownership Society is based on the fact that homeownership helps build stability and wealth through equity. That's equity that can be used to start a small business, fund a child's education, or to increase the value of the home. The point is that by increasing avenues of homeownership for low-income families, we accelerate their entrance into the middle-class.

The Housing Choice Voucher is a valuable asset to assist low-income Americans afford the rent, but we have to find a way to move people from assistance to self-sufficiency. This is a more progressive, humane, and just approach to rental assistance. Public housing and Vouchers have helped millions of low-income American families over the past several decades. Our challenge now is to ensure that we serve millions more in the decades ahead.

Effective and efficient programs get funded. With your help, I believe we can do the same for the Voucher program. As the General Accountability Office has recognized in its removal of the Department from its list of High Risk Programs, as well as the Office of the Inspector General eliminating all material weaknesses and giving HUD a clean audit opinion, the Department has shown that it can be trusted to effectively and efficiently administer a modernization to the country's largest rental assistance program.

Thank you for the opportunity to discuss these important issues.